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ADDRESS BY THE PREMIER OF SOUTH AUSTRALIA, DON DUNSTAN, TO THE
ELIZABETH ROTARY CLUB.

SUBJECT: THE ECONOMY.

16.2.72

THANK YOU FOR INVITING ME HERE THIS EVENING.

I THINK IT IS AN ENTIRELY APPROPRIATE TIME FOR ME TO SPEAK TO A
GROUP SUCH AS YOURS IN A COMMUNITY SUCH AS YOURS.

AND THIS IS BECAUSE WE ARE, AT THE MOMENT, IN THE NATION AS A WHOLE,
EXPERIENCING A QUITE SERIOUS LACK OF CONFIDENCE IN THE ECONOMY.
SUCH A SITUATION SHOULD BE OF VITAL CONCERN TO EVERYONE; BUT I
THINK IT IS ONLY NATURAL AND RIGHT THAT IT SHOULD CAUSE ESPECIAL
CONCERN IN COMMUNITIES SUCH AS ELIZABETH.

SO I THOUGHT TODAY THAT I WOULD SPEAK TO YOU CONCERNING THESE MATTERS -
HOW THE RECENT PREMIERS' CONFERENCE AFFECTED THEM - WHAT PROJECTIONS
CAN BE MADE FOR THE FUTURE.

IN DOING SO, I WOULD HOWEVER LIKE TO MAKE CLEAR THAT I AM NOT A
PROPHET OF DOOM. ON THE OTHER HAND, I AM WORRIED AT THE GENERAL
SITUATION AS AN AUSTRALIAN, AND AT ITS EFFECTS ON SOUTH AUSTRALIA
ESPECIALLY, AS PREMIER.

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LET ME SAY THIS THEN, AT THE OUTSET. OUT OF THE CANBERRA PREMIERS'
CONFERENCE THIS WEEK CAME A FLOOD OF SELF CONGRATULATIONS THAT TOLD
THE COUNTRY THAT SOMETHING EFFECTIVE AT LAST HAD BEEN DONE TO
STIMULATE THE NATIONAL ECONOMY.

THE IMPLICATION WAS THAT EVERYTHING WAS IN GOOD HANDS, THE RIGHT
DECISIONS HAD BEEN MADE, AND THAT WE COULD EXPECT IN A SHORT WHILE TO
SEE CONSUMER DEMAND BACK TO A PROPER BUOYANT LEVEL.

IT LOOKED GOOD IN THE PRESS. BUT IT WAS ONLY HALF OF THE STORY.

THE FACT IS THE AUSTRALIAN ECONOMY IS STILL IN SERIOUS TROUBLE
BECAUSE NOTHING HAS BEEN DONE EFFECTIVELY TO REDUCE THE INFLATIONARY
PRESSURES UPON IT.

THIS WAS CLEAR EVEN WHEN THE PREMIERS' CONFERENCE ENDED. IT BECAME
DOUBLY SO TODAY WITH THE NEWS THAT BHP HAD DECIDED TO RAISE ITS
STEEL PRICES BY 5%.

SO WHAT ARE WE FACED WITH RIGHT NOW?

THE JANUARY UNEMPLOYMENT FIGURES RELEASED THIS WEEK SHOWED THAT

AUSTRALIA HAD A TOTAL UNEMPLOYED WORKFORCE OF 130,233 - WHICH IS A 46.1% GROWTH IN AUSTRALIAN UNEMPLOYMENT AS COMPARED WITH JANUARY, 1971. IN ADDITION, JOB VACANCIES HAVE FALLEN IN AUSTRALIA BY 33.3%. THE EFFECT OF THIS ON SOUTH AUSTRALIA'S ECONOMY HAS BEEN ENORMOUS. FURTHER, UNEMPLOYMENT FIGURES ARE BASED ON THE NUMBER REGISTERED. THERE ARE ALWAYS THOUSANDS OF PEOPLE WHO DON'T PUT THEMSELVES ON THE DEPARTMENT OF LABOUR AND NATIONAL SERVICE BOOKS. FOR INSTANCE, THE FEBRUARY 1971 LABOUR FORCE SURVEY BY THE BUREAU OF CENSUS AND STATISTICS INDICATED AN UNEMPLOYMENT RATE ABOUT 22% HIGHER THAN THE DEPARTMENT OF LABOUR AND NATIONAL SERVICE REGISTRATION FIGURES. WITH 130,000 THAT WOULD MEAN A REAL UNEMPLOYMENT FIGURE OF NEARLY 160,000. IN SOUTH AUSTRALIA AND THE NORTHERN TERRITORY, AT THE END OF JANUARY WE HAD AN UNEMPLOYMENT RATE OF 13,808. WE HAD A 41.7% GROWTH IN UNEMPLOYMENT TOGETHER WITH A 15.7% FALL OFF IN VACANCIES IN THE YEAR TO JANUARY, 1972. AND THE POINT I WOULD LIKE TO MAKE IS THAT THOSE FIGURES REFLECT SOUTH AUSTRALIA'S VULNERABILITY AS A FOLLOW ON TO UNEMPLOYMENT INTERSTATE.

FOR THE FACT IS THAT WE DO RELY IN SOUTH AUSTRALIA ON SALES OF MOTOR VEHICLES AND APPLIANCES, AND WHEN PEOPLE IN OUR MARKET AREAS IN SYDNEY AND MELBOURNE STOP BUYING OUR GOODS, WE SUFFER FROM UNEMPLOYMENT IN THOSE INDUSTRIES. FOR THIS REASON, I AM SORRY THAT THE PRIME MINISTER DID NOT HELP THOSE INDUSTRIES WITH RELIEF OF SALES TAX. NOW WHAT HAS BEEN ACHIEVED IN CANBERRA THIS WEEK WAS A REVERSAL OF FEDERAL GOVERNMENT ECONOMIC STRATEGY. AND I SAY 'REVERSAL' ADVISEDLY. IT WAS NOT, AS MR. McMAHON PUT IT, A "FURTHER MEASURED RESPONSE" "IN LINE WITH A CONSISTENT FLEXIBLE APPROACH". IT WAS AN ABOUT FACE ON THE POLICIES ADOPTED BY THE FEDERAL GOVERNMENT IN THEIR LAST BUDGET. AS A RESULT, HAPPILY, SOME \$85.8M. IS TO BE INJECTED INTO THE NATIONAL ECONOMY IN THE FORM OF EMPLOYMENT-RAISING PROJECTS OVER THE NEXT THREE MONTHS, OF WHICH SOUTH AUSTRALIA GETS \$7.2M. I WILL BE MAKING AN ANNOUNCEMENT TOMORROW ON THE KINDS OF EMPLOYMENT PROJECTS THIS MONEY WILL BE USED FOR.

IN ADDITION THERE IS THE LONGER TERM BOOST TO BUSINESS CONFIDENCE THROUGH THE REINTRODUCTION OF THE 20% INVESTMENT ALLOWANCE FOR EXPENDITURE ON MANUFACTURING PLANT AND EQUIPMENT.

I THINK IT IS THEREFORE POSSIBLE TO SAY THAT AS A RESULT OF THESE MEASURES THERE IS A GOOD CHANCE THAT THE EASTERN STATES' DEMAND FOR OUR GOODS WILL RISE AND THE EMPLOYMENT PROSPECTS FOR SOUTH AUSTRALIA WILL IMPROVE.

BUT ASSUMING THIS, ONLY PART OF THE PROBLEM WILL BE SOLVED.

FOR AUSTRALIA STILL WILL HAVE ITS PROBLEM OF INFLATION BEFORE IT AND NOTHING HAS BEEN DONE TO EASE THE POSITION.

LET US HAVE A BRIEF LOOK AT THE HISTORY OF THE PRESENT SITUATION:

1. AFTER AN EASY FEDERAL BUDGET IN AUGUST 1969 AUSTRALIA WENT INTO 1970 WITH VERY HIGH LEVELS OF EMPLOYMENT AND WITH VERY HIGH RATES OF WAGE AND SALARY INCREASES. PRICES AT THIS STAGE WERE STILL RISING SLOWLY - PERHAPS DUE TO THE FACT THAT MANUFACTURERS IN SOME CASES COULD STILL ACHIEVE ADEQUATE PROFITS BY EXTRA PRODUCTION.

2. IN THE AUGUST 1970 FEDERAL BUDGET THE COMMONWEALTH GOVERNMENT FOLLOWED AN UNUSUAL POLICY OF GIVING APPROXIMATELY A 10% CUT IN INCOME TAX RATES WITH ONE HAND AND ON THE OTHER RAISING COMPANY TAX AND VARIOUS CHARGES AND LIFTING SALES TAXES BY 2½% ON CARS, RADIOS AND T.V. SETS. BY BUDGETING FOR A LARGE DOMESTIC SURPLUS THE COMMONWEALTH APPARENTLY HOPED TO HOLD DOWN DEMAND PRESSURES.

3. IN FEBRUARY 1971 THE COMMONWEALTH GOVERNMENT TOOK FURTHER ACTION - HAVING BEEN GREATLY DISTURBED BY THE 6% GENERAL WAGE AWARD ON TOP OF FAIRLY LAVISH PUBLIC SERVICE SALARY RISES THAT WERE FLOWING TO OTHER SECTORS. PUBLIC SERVICE RECRUITMENT WAS DRASTICALLY CUT, COMMONWEALTH PUBLIC WORKS WERE SLOWED DOWN OR POSTPONED, THE 20% INVESTMENT ALLOWANCE WAS DISCONTINUED AND THE STATES WERE TURNED AWAY BY FORMER PRIME MINISTER GORTON WITH VERY LITTLE TO MEET THEIR STAGGERINGLY INCREASED WAGE AND SALARY BILLS. THIS CAUSED SOME POSTPONEMENT OF CERTAIN OF THEIR DEVELOPMENT PLANS.

4. IT WAS THUS NOT TOO SURPRISING THAT THE SEASONALLY ADJUSTED LEVEL OF UNEMPLOYMENT HAD ALREADY GROWN FROM A LOW POINT OF 48,000 IN APRIL 1970, TO 61,000 IN JANUARY 1971 (BEFORE THE GORTON MEASURES) AND WAS 71,000 BY THE END OF JULY 1971 SIX MONTHS LATER, BUT BEFORE THE AUGUST 1971 BUDGET. IT ROSE FURTHER TO 90,000 IN THE 4½ MONTHS REMAINING OF 1971 AFTER THE BUDGET.

5. IT IS TRUE THAT PART OF THE 1970/71 FINANCIAL YEAR INCREASE IN UNEMPLOYMENT - BUT LESS THAN HALF - WAS OUTSIDE THE CITIES WHERE INCOMES - ESPECIALLY IN WOOL AREAS - WERE DEPRESSED.

6. THE AUGUST 1971 FEDERAL BUDGET AIMED FOR ANOTHER LARGE DOMESTIC SURPLUS. THE COMMONWEALTH TREASURER INCREASED THE SURCHARGE ON INCOME TAX BY 2½% TO 5%, INCREASED EXCISE ON CIGARETTES, TOBACCO AND PETROL, AND RAISED POSTAL AND TELEPHONE CHARGES SEVERELY.

7. FOR THE 18 MONTHS UP TILL NOVEMBER 1971 THERE WAS A GENERAL POLICY OF RESTRAINT ON BANK LENDING, AND A VERY HIGH PATTERN OF INTEREST RATES - INCLUDING THOSE FOR NEW HOUSES AND FLATS.

8. FROM FEBRUARY 1971 THE PRIME MINISTER AND SUCCESSIVE TREASURERS GAVE MANY WARNINGS TO THE PUBLIC OF THE DIRE CONSEQUENCES OF INFLATION AND FREQUENTLY FORECAST A TOUGH 1971 FEDERAL BUDGET.

9. THE TREASURER IN HIS BUDGET SPEECH EXPRESSED GREAT CONCERN OVER THE MASSIVE RATE OF INCREASE IN WAGES AND SALARIES AND THE BUILD-UP OF SAVINGS WHICH HE FEARED WOULD SPILL OVER INTO EXCESSIVE CONSUMER SPENDING, THUS PILING DEMAND INFLATION ON TOP OF COST-PUSH INFLATION.

NOW THERE ARE TWO KINDS OF INFLATION - ONE WHERE IT COSTS INDUSTRY MORE TO PRODUCE, SAY, AN INDIVIDUAL CAR OR REFRIGERATOR - WHICH IS A COST-PUSH INFLATION, AND ONE WHERE PEOPLE TRY TO BUY MORE INDIVIDUAL PRODUCTS THAN INDUSTRY CAN PRODUCE, WHICH IS DEMAND INFLATION.

IN ONE, PRICES RISE BECAUSE COSTS RISE. IN THE OTHER, PRICES RISE BECAUSE OF SHORTAGE. IF YOU TRY TO STOP EITHER FORM OF INFLATION IN THE WRONG WAY, YOU CAN CAUSE UNEMPLOYMENT BY GOING TOO FAR.

AND WHAT HAS HAPPENED IN AUSTRALIA IS THAT BECAUSE OF A SERIOUS ERROR IN FEDERAL ECONOMIC JUDGEMENT, THE REMEDIES FOR OUR CURRENT INFLATION HAVE BEEN FOR THE KIND OF INFLATION WE HAVEN'T GOT.

THE FEDERAL REMEDIES ARE FOR DEMAND INFLATION, RATHER THAN COST-PUSH INFLATION.

NOW IT IS TRUE THAT IN A NATIONAL SITUATION SUCH AS WE HAVE, WHERE INDUSTRIES' COSTS, AND THUS PRICES, ARE RISING, THE THING THAT SHOULD HAVE BEEN DONE IS TO TAKE ACTION WITH THE FULL WEIGHT OF ALL GOVERNMENTAL POWERS TO REDUCE AND RESTRAIN COST INCREASES. THAT WOULD MEAN MAKING SURE THERE WAS A GENERAL POLICY FROM GOVERNMENT THAT ASSURED STABILISING OF WAGES, PRICES AND PROFITS.

IT HAS TO BE ALL THREE. YOU HAVE TO MAKE SURE PEOPLE GET PAID A FAIR AMOUNT FOR THEIR WORK. YOU HAVE TO MAKE SURE COMPANIES MAKE ENOUGH PROFIT TO RE-INVEST FOR EXPANSION. AND YOU HAVE TO MAKE SURE NO-ONE IS EXPLOITED THROUGH TOO HIGH A PROFIT LEVEL OR INADEQUATE WAGES.

AFTER ALL, OBVIOUSLY WORKERS WILL NOT STOP ASKING FOR WAGE RISES WHEN COMPANIES ARE PUTTING UP PRICES OR SHARPLY INCREASING THEIR PROFITS, AND WHEN THE REAL VALUE OF THEIR PAY PACKETS IS ERODING.

NOW THE ONLY ORGANISATION THAT CAN DO THIS ON ALL THREE LEVELS IS THE FEDERAL GOVERNMENT.

WHAT ALL THE STATES CAN DO IS CO-OPERATE AND WE WOULD.

IN SOUTH AUSTRALIA WE HAVE THROUGH LIMITED PRICE CONTROL AND PERSUASION KEPT OUR STATE'S PRICES BELOW NATIONAL AVERAGES.

BUT THE PRESENT FEDERAL GOVERNMENT HAS NEVER AGREED TO THIS PRINCIPLE AND SOUGHT EFFECTIVE NATIONWIDE POWERS TO RESTRAIN PRICE RISES. BUT THIS IS ESSENTIAL IF THEY ARE TO STABILISE THE DEMANDS OF WAGE AND SALARY EARNERS.

NOW THERE IS CLEARLY IN THIS SITUATION A LESSON TO BE LEARNED IN CANBERRA FROM OUR PRICE CONTROLLING EXPERIENCE IN SOUTH AUSTRALIA. IN THIS STATE THERE IS STILL A FAIRLY WIDE RANGE OF GOODS AND SERVICES UNDER CONTROL. IN ADDITION, MANY ARRANGEMENTS AND AGREEMENTS EXIST WITH INDUSTRIES THAT BEFORE PRICES OF GOODS - OR RATES FOR SERVICES NO LONGER FIXED - ARE INCREASED, DETAILS OF THE PROPOSED INCREASES AND REASONS FOR THEM WILL BE SUBMITTED TO THE BRANCH FOR EXAMINATION.

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THIS ALLOWS A TWO PRONGED APPROACH TO PRICE FIXING. FOR NOT ONLY ARE MANY PRICES CONTROLLED DIRECTLY, BUT ALSO THE SYSTEM OF CONSULTATIONS BETWEEN COMPANIES PRODUCING GOODS NOT UNDER CONTROL AND THE PRICES COMMISSIONER MEANS THAT IN A GREAT MANY CASES COMPANIES ARE RELUCTANT TO RAISE PRICES AND RISK THE IMPOSITION OF PRICE CONTROLS ON THEM.

IN ADMINISTERING THE PRICES ACT THE PRICES COMMISSIONER DEFINES REASONABLE PRICES AS THOSE THAT ARE THE LOWEST POSSIBLE CONSISTENT WITH ALLOWING EFFICIENT PRODUCERS AND DISTRIBUTORS TO OBTAIN REASONABLE RETURNS.

A PRICES JUSTIFICATION BOARD WITH ADEQUATE POWERS - POSSIBLY USING THE COMPANIES PROVISION IN THE COMMONWEALTH CONSTITUTION - COULD PERFORM THE SAME TASK EFFECTIVELY ON A NATIONAL LEVEL.

IN FACT, IT IS ESSENTIAL IF WE ARE TO HAVE A BALANCE SET BETWEEN PRICES AND WAGES. FOR THE FACT IS, WORKERS WILL NOT STOP ASKING FOR HIGHER WAGES WHEN THEY SEE PRICES AND PROFITS RISING TO MANUFACTURERS, AND MANUFACTURERS CAN HARDLY STOP RAISING PRICES

IF THEIR COSTS KEEP GROWING THROUGH WAGE DEMANDS.

IT IS A CHICKEN AND EGG SITUATION. WE DON'T KNOW WHICH COMES FIRST, AND ONLY EFFECTIVE NATIONWIDE CONTROLS CAN ALLEVIATE THE SITUATION.

WITHOUT THESE, WE CAN ONLY LOOK FORWARD TO A PROLONGED PERIOD WITH A HIGH DEGREE OF INFLATION, UNEMPLOYMENT AND INDUSTRIAL DISLOCATION.

THANK YOU.